

Message Text

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PAGE 01 STATE 245945

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TO USMISSION EC BRUSSELS IMMEDIATE
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C O N F I D E N T I A L STATE 245945

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E.O. 11652: GDS

TAGS: ETRD, EC

SUBJECT: U.S. PROPOSAL TO SOLVE EC CANNED HAM DISPUTE

U.S. MISSION EC BRUSSELS - EYES ONLY FOR AMBASSADOR
GREENWALDFROM EB AND EUR
U.S. MISSION OECDPARIS-EYES ONLY FOR ASSISTANT SECRETARY
ENDERS

1. AMBASSADOR DENT SPECIFICALLY DECLINED TO HAVE A STATE
OFFICER ACCOMPANY HIM ON HIS CURRENT VISIT TO BRUSSELS
WITH ASSISTANT SECRETARY OF TREASURY MACDONALD. HIS STATED
REASON FOR THIS WAS THAT AMBASSADOR GREENWALD WOULD BE
AVAILABLE TO REPRESENT STATE. BELIEVE IT IMPORTANT, THERE-
FORE, THAT AMBASSADOR GREENWALD HAVE BACKGROUND ON INTER-
AGENCY DECISION ON THIS MATTER AND OUR COMMENTS ON SEPARATE
BRIEFING PAPERS BEING CARRIED BY AMBASSADOR DENT AND
MACDONALD, COPIES OF WHICH SENT SEPTTEL.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 245945

2. AT INTERAGENCY MEETING ATTENDED BY STATE, STR AND TREASURY IT WAS AGREED THAT WE WOULD REQUEST EC TO MAKE A REDUCTION OF 4 UNITS OF ACCOUNT IN ITS CURRENT RESTITUTION LEVELS OF 24 UNITS OF ACCOUNT ON CANNED HAMS AND 20 UNITS OF ACCOUNT ON CANNED SHOULDERS WITHIN A 12 MONTH PERIOD. THIS ACTION TO BE UNILATERAL ON PART OF EC. USG IN TURN

WOULD GRANT WAIVER OF COUNTERVAILING DUTIES ASSESSABLE AGAINST REMAINING RESTITUTION PAYMENT ON GROUNDS THAT PROVISIONS OF THE TRADE ACT HAD BEEN MET AND THAT CURRENT HIGH PORK PRICES IN US WOULD BE FURTHER INCREASED BY COUNTERVAILING ACTION. AT SAME TIME WE WOULD INFORM EC WE WOULD BE MAKING STATEMENT AT TIME OF WAIVER ANNOUNCEMENT THAT THE U.S. WOULD KEEP THE SITUATION UNDER REVIEW WITH PARTICULAR REFERENCE TO PORK PRICES IN THE U.S., PROFITABILITY OF U.S. PRODUCERS, IMPORT PENETRATION BY THE EC INTO THE U.S. MARKET, (NON-AGGRESSIVE MARKETING) TRENDS IN U.S. CONSUMPTION, AND THE LEVEL OF CORN-HOG RATIO.

3. TWO BRIEFING PAPERS PREPARED FOR AMBASSADOR DENT AND A SEPARATE ONE PREPARED FOR MACDONALD GO BEYOND THIS GENERAL AGREEMENT AND CONTAIN SPECIFICS WHICH WE BELIEVE SHOULD BE TREATED SOMEWHAT DIFFERENTLY. (PLEASE DO NOT INDICATE YOU HAVE SEEN THESE PAPERS). THE FOLLOWING ARE OUR MAJOR AREAS OF DIFFICULTY:

- A. BOTH MACDONALD AND DENT PAPERS REQUEST A 20 PERCENT REDUCTION IN CURRENT RESTITUTION LEVELS. WE BELIEVE THAT WE SHOULD HOLD TO THE 4 UNITS OF ACCOUNT REQUEST, WHICH WOULD RESULT IN A REDUCTION OF 20 PERCENT FOR CANNED SHOULDERS BUT LESS THAN 20 PERCENT FOR CANNED HAMS.

- B. BOTH PAPERS ALSO SET OUT CORN-HOG RATIO AS A SEPARATE TRIGGER, NOTING THAT SHOULD THE RATIO FALL BELOW 15-1 WE WILL REQUIRE A REDUCTION IN RESTITUTION PAYMENTS. WE VIEW THE CORN-HOG RATIO AS ONE ELEMENT TO BE CONSIDERED IN A REVIEW OF THE OVERALL SITUATION. WE DO NOT BELIEVE THAT A SPECIFIC TRIGGER OF THIS NATURE SHOULD BE FORCED UPON EITHER THE EC (OR THE ADMINISTRATION). WE WOULD HAVE NO DIFFICULTY IN INFORMING THE EC THAT, SHOULD THE CORN-CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 245945

HOG RATIO FALL BELOW 15-1, WE WOULD BE REQUIRED TO SERIOUSLY RE-ASSESS THE SITUATION EVEN IF OTHER FACTORS ALL REMAIN CONSTANT.

- C. DENT PAPERS INCLUDE LANGUAGE ON REMOVAL OF PRE-FIXATION IN CONNECTION WITH REDUCTION IN RESTITUTION PAYMENTS. THIS MATTER WAS RAISED BY ONE AGENCY BUT NOT AGREED TO IN WASHINGTON.

- D. IN BOTH DENT PAPERS 5TH ITEM LISTED UNDER FACTORS U.S. GOVERNMENT WILL TAKE INTO ACCOUNT IS TOO VAGUE AND WOULD, WE BELIEVE, CAUSE SERIOUS CONCERN TO THE EC. WE WOULD RECOMMEND, THEREFORE, THAT THIS GENERAL COVER ITEM BE DROPPED.

- E. PARAGRAPH 4 OF FIRST DENT PAPER AND PARAGRAPH 5 OF SECOND DENT PAPER APPEAR TO BE UNNECESSARY AND COULD BE MISREAD BY THE EC. WE WOULD SUGGEST THAT THESE PARAGRAPHS BE DROPPED.

- F. DENT IS CONSIDERING LEAVING SECOND PAPER WITH EC. WE THINK THIS WOULD BE A SERIOUS MISTAKE SINCE IT WOULD BE SEEN BY EC AS ATTEMPT TO BEGIN FORMALIZE QTE AN AGREEMENT END QUOTE AND COULD, THEREFORE, FURTHER REDUCE PROSPECT OF EC'S ACCEPTING OUR PROPOSAL.

- G. FINAL SMALL POINT. IN FIRST NUMBERED PARAGRAPH OF THE FIRST DENT PAPER WE WOULD RECOMMEND THAT QUOTE AND SYSTEMATIC END QUOTE BE DROPPED FROM THE SECOND SENTENCE SINCE IT IMPLIES A CONTINUATION IN REDUCTION WHICH MAY OR MAY NOT BE REQUIRED.

4. WE WILL BE WORKING WITH STR TODAY TO OBTAIN ABOVE CHANGES. IT IS POSSIBLE, THEREFORE, THAT REVISED DENT PAPERS MAY BE SENT YOU TONIGHT VIA NON-RESTRICTED DISTRIBUTION CHANNEL.

5. IN ANY EVENT, GREATLY HOPE AMBASSADOR GREENWALD CAN MEET WITH AMBASSADOR DENT AND MACDONALD FOR A STRATEGY SESSION PRIOR TO MEETING WITH EC OFFICIALS. AT THAT TIME, WE WOULD APPRECIATE RENEWED EFFORT BE MADE TO CONVINCE CONFIDENTIAL

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PAGE 04 STATE 245945

DENT AND MACDONALD THAT A MORE GENERAL APPROACH IN THE INITIAL PHASE OF OUR DISCUSSION WITH THE EC IS BETTER SUITED TO OUR LONG-TERM GOALS. MANY OF THE POINTS THEY WISH TO MAKE CAN BE TREATED AS UNILATERAL STATEMENTS BY OUR SIDE AND SHOULD NOT BE INJECTED AT THIS POINT IN THE DISCUSSION. WE WOULD SUGGEST THE FOLLOWING POINTS FOR AMBASSADOR GREENWALD TO URGE UPON DENT AND MACDONALD AS MOST EFFECTIVE LINE FOR THE US SIDE TO USE IN DISCUSSION WITH THE EC. BEGIN POINTS - WE WOULD BE PREPARED IF THE EC ACCEPTS OUR PROPOSAL TO,UT IT INTO EFFECT IN THE FOLLOWING MANNER:

- A. THE EC COULD UNILATERALLY ANNOUNCE A DECISION TO LOWER RESTITUTION PAYMENTS BY 4 UA OVER THE NEXT YEAR ON A SCHEDULE OF ITS CHOOSING.

- B. THE US WOULD ANNOUNCE THAT ON THE BASIS OF THE EC ACTION AND GIVEN HOG MARKET CONDITIONS IT WAS WAIVING THE APPLICATION OF CVDS IN ACCORDANCE WITH THE RELEVANT PROVISION OF THE TRADE ACT.

- C. THE US IN ANNOUNCING ITS DECISION TO WAIVE CVDS WOULD NOTE THAT THE CONTINUATION OF THE WAIVER WOULD DEPEND UPON WAIVERS REMAINING IN ACCORD WITH THE RELEVANT PROVISIONS OF THE TRADE ACT, THAT ACCORDINGLY WE WOULD KEEP UNDER REVIEW SUCH FACTORS AS: IMPORT PENETRATION BY THE EC PRODUCT, INCLUDING SHARE OF THE US MARKET; THE LEVEL OF THE CORN-HOG RATIO; TRENDS IN US CONSUMPTION; AND CHANGES IN PROFITABILITY OF THE US HOG INDUSTRY.

6. FINALLY, YOU SHOULD KNOW THAT WHILE STATE HAS KEPT TO AGREEMENT THAT PRESENTATION OF U.S. POSITION SHOULD ONLY BE MADE TO EC BY DENT, LENG OF EC COMMISSION TOLD GLITMAN HE HAD BEEN GIVEN OUTLINE OF OUR PROPOSAL (MINUS SPECIFIC NUMBERS) BY ANOTHER AGENCY, COMMUNICATED IT TO SOAMES AND RECEIVED A VERY NEGATIVE RESPONSE. YOU MIGHT AT YOUR DISCRETION TELL SOAMES THAT IF EC CANNOT ACCEPT OUR PROPOSAL A RESPONSE WHICH KEPT THE DOOR OPEN FOR FURTHER DISCUSSION WOULD BE MORE HELPFUL BACK HERE THAN A FLAT TURN DOWN. KISSINGER

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